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SUBJECT: DIVERSIFYING THE SAUDI ECONOMY

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[B](#). 08 RIYADH 1151
[C](#). 08 RIYADH 1174

Classified By: CG JOHN KINCANNON FOR REASONS 1.4 (B) AND (D)

[1](#)1. (C) SUMMARY: SAG efforts to economically diversify beyond oil have drawn much attention during the current energy boom.

Projects such as the King Abdullah Economic City in Rabigh and the Knowledge Economic City in Medina, with soaring goals and price tags, spark debate as to whether the Kingdom can succeed in becoming a twenty-first century economic leader while navigating the challenges of the country's conservative character. But while these idealistic ventures garner media hype, work in the Eastern Province on more blue-collar economic diversification projects shows great promise. Jubail Industrial City, harnessing the power of the Saudi petrochemical industry, is in the midst of significant growth; Jubail II, estimated to attract more than 66 billion USD in investment, is now in the second of four phases of development. Meanwhile, only 90 kilometers up the Gulf from Jubail, the Saudi Arabian Mining Company (Maaden) has begun construction of facilities for the Minerals Industrial City at Ras al-Zour. With fertilizer and aluminum smelting plants as well as the Kingdom's ninth port already underway, Ras al-Zour will play an integral role in the development the Saudi mining industry, described by the Saudi Arabia General Investment Authority (SAGIA) as a "third pillar" of the Saudi economy. While petrochemicals and mining may help fulfill a vision of economic diversification, the success of both industries will rely on continued access to cheap gas feedstock. END SUMMARY.

Jubail Expansion: A Success Continues Growing

[1](#)2. (SBU) Founded in 1975 and managed since its inception by Bechtel Corporation, the Jubail Industrial City has been one of the greatest success stories in Saudi Arabia's economic history and is today billed as the largest civil engineering project in the history of the world. The SAG has invested approximately 12.8 billion USD into Jubail's civil infrastructure since its inception, a number easily eclipsed by the nearly 60 billion USD in private industrial investment, in addition to nearly 6 billion USD in private investment in residential and commercial facilities. Jubail I, as it is now known, accounts for seven percent of the world's petrochemical production, over 11 percent of the Kingdom's non-oil GDP, and over half of the Kingdom's total foreign investment. And though Jubail II is now the development focus, Jubail I continues growing, with some 123 new industries under either construction or design, in addition to the 195 already in existence.

[1](#)3. (C) When King Abdullah visited Jubail Industrial City in June 2006 he inaugurated 20 new projects valued at some 22

billion USD, the opening salvo in the first phase of Jubail II, a four phase project with a timeline of approximately 22 years and a goal of attracting more than 66 billion USD in investment and creating 55,000 new direct and 330,000 new indirect jobs. In a May 2008 visit to the Eastern Province (EP), the King continued with Jubail inaugurations, launching 29 more industrial and development projects worth over 18 billion USD. From setting up the Middle East's first plant for basic acrylic monomers - a 700 million USD project involving U.S.-based Rohm and Haas Company - to continuing production of ethylene and isopropanol, petrochemical products make up the foundation of the Jubail II expansion. Not all is the same as it was, however, as Mohammad al-Madi, Royal Commission for Jubail and Yanbu (RCJY) Director of Investment Agreements told EconOff in a June 23 meeting that the SAG has heightened its focus on developing more complex, higher value-added petrochemical products in an effort to realize the greatest benefit from its resources.

¶4. (SBU) The petrochemical second pillar is not the only effort putting Jubail at the forefront of the Kingdom's growth, as the city will also be the site of the Saudi Aramco/Total joint venture refinery planned to begin operation in 2012. The refinery has a price tag that seems to grow with every new report, current estimates putting it over 12 billion USD, and will process 400,000 bpd of Arabian Heavy crude as well as a new grade of crude from the offshore Manifa field (Ref A). Additionally, Jubail will be the site of a joint project between the Saudi Arabian Fertilizer Company and SABIC - through Hadeed, the Saudi Iron and Steel Company - to build a 1.7 million metric ton iron sheet plant to meet growing regional steel demand (Ref B). This project

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is also expected to be completed in 2012. The success of Jubail seems to know no limit, as when asked by EconOff about a possible Jubail III, RCJY Director al-Madi confirmed that preliminary conversations have begun on the topic.

The Third Pillar: Maaden and Ras al-Zour

¶5. (SBU) In addition to the three decades of development at Jubail Industrial City, a more recent focus on mining and the processing of metals has sought to create what Saudi Arabian General Investment Authority Governor Amr al-Dabbagh has described as a "third pillar" of the Saudi economy. Founded in 1997 with only one gold mine in operation, the Saudi Arabian Mining Company's (Maaden) July 2008 50 percent Initial Public Offering on the Saudi Arabian Tadawul market raised some 2.5 billion USD. The company now has five gold mines in operation, and is in the process of developing a sixth. Despite the Kingdom's traditional core competency in gold mining, it is phosphate and aluminum that promise to take Maaden to a new level of commercial success. Raw phosphate mined from the al-Jalamid site, located near the Iraq border, and bauxite mined from the al-Zabirah site in Qassim Province will be transported along a 1,500 kilometer railway line to Ras al-Zour, located along the Arabian Gulf some 90 kilometers north of Jubail. Smelters at Ras al-Zour will then process the minerals into di-ammonium phosphate and aluminum, respectively. Both Ras al-Zour projects are joint ventures, Maaden and SABIC joining to form the Maaden Phosphate Company (MPC), and Maaden and Rio Tinto Alcan joining to form AlumCo.

¶6. (SBU) The Maaden Phosphate Company, employing the services of Australian firm Worley Parsons, will develop a fertilizer complex that includes one ammonia, three sulfuric acid, three phosphoric acid and four di-ammonium phosphate (DAP) plants. Upon entering into operation in 2010 the complex will produce some three million tons per year of DAP, making it the world's largest producer at between ten and twenty percent of the world's production. DAP is a fertilizer used on grain and in horticulture, and some speculate that this new wealth

in fertilizer - a 25 billion USD global market - could play a central role in the Kingdom's proposed efforts to invest in foreign farming in hopes of gaining food security (Reftel C).

The development of the MPC project will cost an estimated 5.52 billion USD.

17. (SBU) Meanwhile, AlumCo, in which Maaden holds a 51 percent share, will build the Kingdom's first aluminum smelter at Ras al-Zour. Originally forecast to cost 7 billion USD and have an annual production capacity of 650,000 tons, the cost has since been twice adjusted due to inflation and a decision to increase capacity. Per a July 29 Maaden statement, the smelter will now have an annual production of 740,000 tons and cost approximately 40 percent more, some 10.55 billion USD. The aluminum smelter, having suffered severe project delays, is now scheduled to begin production in 2012, more than a year later than anticipated.

18. (SBU) The Minerals Industrial City, the name given to the fertilizer and aluminum facilities at Ras al-Zour, is expected to draw approximately 25 billion USD in investment and create close to 20,000 jobs. Meanwhile, construction of Ras al-Zour port, through which the finished fertilizer and aluminum will be exported to the global market, has been awarded to the Chinese firm Harbor Contracting and Engineering Company. At a cost of 586 million USD, the port will be the Kingdom's ninth, and is scheduled to be completed in 2010. Additionally, powering the Ras al-Zour campus will require 2 power plants, producing 160 MW and 2400 MW, respectively.

But is this Diversification?

19. (C) Though the petrochemical and mining industries have been called the second and third pillars of a more diversified Saudi economy, both industries rely on cheap gas feedstock to maintain profit margins. Saudi Arabia - neither a net importer nor exporter of natural gas - continues to supply natural gas to SABIC and Maaden at the rate of 0.75 USD per million British thermal units (Btu), which compares quite favorably to between 6 and 8 USD per million Btu on the international market. And while there has been no talk of increasing prices for feedstock, there are signs indicating a lack of availability of natural gas is keeping growth from reaching full potential. According to Naser al-Wahab of the

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Economic Development Department at the Royal Commission for Jubail and Yanbu, the Commission's talk of focusing on high value-added industries is to some degree due to a lack of feedstock availability for primary industries. According to al-Wahab, there has been a slowdown in concessions given to companies applying for resource allocations in Jubail II due to this lack of gas. As has been previously reported by Post, though there is no lack of associated gas in Saudi Arabia, the inability to find reserves of unassociated gas - particularly in the Empty Quarter - has the potential to limit the Kingdom's ability to produce quantities needed for the energy-intensive industries it hopes to promote (Ref A).

Comment

110. (C) Despite concerns about feedstock availability, and more general project challenges such as regional inflation and a lack of available skilled labor, industry contacts remain quite optimistic about the future of Jubail and Ras al-Zour. While new economic cities garner headlines, Jubail and Ras al-Zour will build on the Kingdom's proven expertise in natural resource exploitation and may prove the greater economic force for the near future.

(APPROVED:JKINCANNON)

